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Senior Vice President

October 6, 2005

Chairman Joe Desmond
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814-5512

Dear Chairman Desmond:

Thank you for the opportunity to comment on your letter to Commissioners Geesman and Boyd regarding a responsible clean coal policy for California. Southern California Edison (SCE) supports development of clean coal technologies as a way of tapping this abundant western fuel source in a manner that addresses the climate change issue. However, as described below, the particular policies you recommend raise several serious concerns that can lead to adverse outcomes if implemented. SCE stands ready to work with the State to craft policies that will encourage cost-effective, clean technologies of all types for the benefit of California, its surrounding neighbor states and the broader environment.

Given the realities surrounding the adequacy and volatility of natural gas supplies that have plagued California for over five decades, the prospect of economically efficient coal power that minimizes adverse effects on the global environment is very attractive to both California and the nation. To support clean coal technologies, SCE is an active member in Electric Power Research Institute's ("EPRI") "CoalFleet for Tomorrow" initiative and technology assessment program (Program 66) to advance the development and application of a portfolio of advanced coal technologies.

SCE sees significant problems with a requirement that new base load coal plants meet natural gas fired combined cycle CO₂ emission rates in the near/mid term. First, although significant advancements have been made in clean coal technologies in recent years, no one technology has emerged as superior. Moreover, carbon separation and sequestration at the scale required is immature and does not yet represent a commercially feasible solution to greenhouse gas emissions. Integrated gasified combined cycle (IGCC) plants that can operate commercially using western coals should be developed as soon as practicable. At the same time, California should pursue aggressively the development of commercially feasible sequestration techniques that can be incorporated into operating and future IGCC plants. As the IEPR quotes Governor Schwarzenegger's response to the 2004 *Energy Report Update*, "It is impossible to predict which technologies will advance to commercial maturity most rapidly, so a variety of technology paths must be encouraged."¹ To require that new coal plants meet combined cycle combustion turbine CO₂ emission rates at this time would deprive Californians of an important source of affordable electric power. Natural gas prices are rising and there are significant concerns about supply. California will need affordable electricity from a variety of energy sources including coal.

¹ Committee Draft IEPR, September 15, 2005, page 69

An additional concern is that the proposed greenhouse gas (GHG) performance standard, which would apply to all energy resources, both in-state and out-of-state, both coal and non-coal, and based on net emissions per megawatt-hour would be impossible to enforce if implemented. The net emission performance standard could create perverse incentives and higher costs through "carbon laundering" whereby coal power is sold to hydro plant owners who then sell power at inflated prices into California. In this scenario, Californians would be paying higher prices and little or no reductions in greenhouse gases would occur. The focus should be encouraging the rapid development of clean coal by those that have accepted the challenge from a business perspective, and for California to develop the systems needed to capture and sequester the adverse emissions.

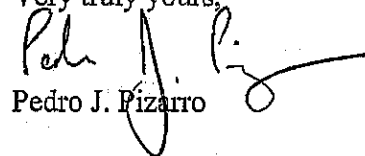
We must restate our view that it is imperative that any mandatory GHG emissions reduction standard include a reasonable offset provision that allows for valid reductions wherever they are most cost effective. GHGs distribute around the globe rapidly, making a reduction or a sequestration equally effective no matter where it takes place. By allowing legitimate GHG offsets without geographic restriction, the State can assure whatever GHG reduction goal it may choose to enact is achieved at the least cost to Californians.

In any event, the type of state-imposed limitations on power procurement contracts suggested in your letter would need to overcome substantial legal hurdles, including the interstate commerce clause. Further, a failure to apply such procurement limitations to all load serving entities (including municipal utilities, community choice aggregators and ESPs) would create serious distortions in the State's electricity marketplace and raise additional equitable and legal issues.

For your information, I am attaching a copy of SCE's comments on California Climate Change Policy, originally filed as a response to the Climate Change Advisory Committee Power Sector Subcommittee Report in CEC Docket #04-CCAC-1 on August 3, 2005. It outlines the Company's position on climate change policy.

Please let me know if I can provide you with any additional information. SCE will continue to actively participate and help develop the final IEPR and further policies on these and other important energy issues.

Very truly yours,


Pedro J. Pizarro

Attachment

cc: President Michael R. Peevey, CPUC
Commissioner Geoffrey F. Brown, CPUC
Commissioner Susan P. Kennedy, CPUC
Commissioner Dian M. Grueneich, CPUC
Commissioner John A. Bohn, CPUC

Vice Chairman Jackalyn Pfannenstiel, CEC
Commissioner Arthur H. Rosenfeld, Ph.D., CEC
Commissioner James D. Boyd, CEC
Commissioner John L. Geesman, J.D., CEC